Commonwealth Parliamentary Association,
International Monetary Fund and
The Bangladesh Parliament Workshop on
‘Economic and Financial Challenges for Emerging Economies’
South East Asia, Asia and India Regions

A Workshop hosted by Hon. Dr. Shirin Sharmin Chaudhury MP, Speaker of the Bangladesh Parliament and the CPA Bangladesh Branch, for the Asia, South East Asia and India Regions of the CPA brought together Members of Parliament and Parliamentary Staff on 18 and 19 November 2014. The workshop was held in Dhaka and was supported by the Commonwealth Parliamentary Association and the International Monetary Fund.

This document is a reflection of the discussions had and details five broad areas of interest to the CPA Membership in the participating regions.

Proposals to strengthen financial frameworks to benefit economic growth, reduce poverty and narrow the inequality gap were identified and debated by 20 participants across three regions of the CPA; India, South East Asia and Asia.

Participating CPA Branches included Bangladesh; Chhattisgarh, India; India, Lok Sabha; Pakistan; Sabah, Malaysia and Sri Lanka together with the International Monetary Fund and the CPA Secretariat.

**Workshop objective:**

To bring together Parliamentarians and high level Parliamentary Staff to examine common economic and financial challenges particular to the participating regions; to provide a platform for both the IMF to offer expertise in this area and give an overview of its activities in the areas of focus; and for
Parliamentarians to share experiences and best practice in financial policy and implementation within their jurisdictions.

The five key areas of discussion were the requisite socio-political environment for the development of a strong and stable economy; delivering more inclusive growth - taxation policies; delivering more inclusive growth – financial inclusion and barriers to financial services; government partnerships with the private sector; and climate change and energy pricing.

Discussions are outlined below:

1) The requisite socio-political environment for the development of a strong and stable economy

Participants noted that all countries involved in this seminar were facing common challenges to socio-political and economic development in the region. Members unanimously agreed that in order for a stable and strong economy to flourish, democracy, democratic institutions, the upholding of the rule of law and the rooting out of corruption and are essential to ensuring a stable economic and political environment and attract foreign investment.

The IMF contribution confirmed that public health and education spending is very low in the region compared to other parts of the World. Members acknowledged that Health and Education Spending are underpinning elements necessary for economic growth and long-term strategies are necessary to achieve inclusive growth. Members discussed the importance of the provision of free education for all up until tertiary education.

Members raised the problem of corruption which, until it is rooted out, any financial, fiscal or tax reforms would be fruitless. The participants emphasized the importance of accountability and transparency in financial services and government spending.

The importance of supporting girls through education, contributing to the MDG3, is critical in efforts to end child marriages and decrease maternal mortality.
By addressing fundamental socio-political factors such as these, the region could create the ground for better economic growth.

2) Delivering more Inclusive Growth – taxation policies

Members debated the implementation of effective taxation policies when setting the scene for more inclusive growth. Members noted that:

- The challenge of **indirect taxation**: in countries such as Pakistan, indirect taxation is heavily criticized as it is often perceived as an unequal tax given the negative ramifications it has on the poor

- **Direct Taxes** – a move towards a more progressive system with more direct personal income taxation is more feasible after a basic indirect tax based is established and level of income rises

- **Corporate income tax** reforms with lower tax exemptions and loopholes can help tax the big corporations without much negative impact on growth and the poor

- **Taxes on goods and services** are generally good for economic growth but are considered as regressive taxes

- **Conditional Cash Transfers** are a means by which to attempt to alleviate some levels of poverty. The IMF advised that the third largest CCT programme in the World is in the Philippines and early evidence shows (although no extensive research has yet been conducted) that it improves human indicators, but it doesn’t necessarily alleviate poverty

- Participants expressed the importance of having an effective **Auditor General** and a well-functioning **Public Accounts Committee** to ensure effective, robust and timely scrutiny of government’s budgets and subsequent spending

- Constituents often feel there is little in terms of **services available in return for taxes paid**
• It was generally agreed that **rationalizing large subsidies** that benefit the rich can create space for more targeted transfers. In order to achieve this, members were encouraged to advocate for a unique identification scheme based on household surveys and hard data. This will enhance the transparency of the allocation of subsidies and prevent targeted subsidies from politicization.

• The IMF suggested the use of **thresholds on VAT and personal income** which essentially minimizes hurting the poor, yet still generates income for the government.

• **Designing the right political economy package** is essential when presenting reforms to the public. A Philippine example was cited whereby a tax was levied on the sale of cigarettes and alcohol and the tax raised was used to provide free health insurance to the country’s poorest 20% of people.

• Impact of **black money**. The IMF recommended to consider if tax rates may have reached levels that discourage from declaring income tax and a more equitable tax distribution and strengthening effectiveness of tax administration.

• Members inquired whether studies had been undertaken by national tax administrations or multilateral institutions on **how much subsidy has been extended to the big/rich powers such as large oil companies or similar**. The IMF cited the example of the Philippines where the Bureau of Internal Revenue published the top 500 non-individual taxpayers according to their tax return submissions in a given period. A matching exercise was conducted with this list, against a list of top corporations in the Philippines to enable analysts to identify any corporations that were featuring on the list of top corporations, but not in the top 500 non-individual taxpayers which flagged certain corporations for audit by the BIR. The situation in Bangladesh concerning energy subsidies was raised where heavy subsidies are provided to power companies. Developing economies often require a degree of trade-offs. Members debated how an effective balance can be reached in this regard.
• **Direct Benefit Transfer (DBT)** aims to transfer subsidies directly to those living below the poverty line. Members asked whether the CPA would consider running a programme on this specific issue

• **In Bangladesh, the implementation of a new VAT Reform**, although delayed, has the potential to boost the fiscal space for development spending

3) **Delivering a More Inclusive Growth – Financial Inclusion and barriers to financial services**

Members noted that economic growth is not always synonymous with the eradication of inequality. Members raised the following issues in debating the increase in access to financial services to contribute to closing this gap. The IMF discussed its recent research and policy approach in addressing this issue. The following issues were raised in the discussion:

• **Access to Bank Accounts**; Chhattisgarh, India has reported on the ongoing efforts to establish universal bank accounts to ensure access to financial services. In addition, women have been the subjects of a targeted exercise to encourage them to contribute to the formal economy by opening bank accounts and receiving subsidies for agricultural sector work

• Members recognized that the **informal cash market** creates a plethora of problems, and that regulation is of paramount importance to control this phenomena which is particularly prevalent among those living below the poverty line

• **Small Enterprises** face difficulties in accessing finance and financial services given they are not able to provide collateral and sufficient assurances of repayment of loans to banks. The IMF guided the discussion on how efforts in other countries, particularly Latin American countries were implemented to strengthen the financial sector in making loans more easily available and what tax and legal efforts are needed to
disburse funding more effectively and what structures were needed regarding effective bankruptcy procedures

- Participants reconfirmed that further seminars or training might be useful on how to deal with unaccountable money such as tax havens and black money and its impact on economic development. In that respect, a stronger and well-coordinated international effort is needed to deal with tax loopholes, particularly for multinationals. The CPA and IMF will explore how further training might be delivered in this regard.

- Members debated the Self-Regulatory Systems and their effectiveness and also whether they enable the by-passing of formal processes. Members discussed whether they should be replaced by a stronger regulatory framework

- It was agreed that a level-playing field should be established for foreign and local industry alike

- It was accepted that high interest rates, lack of collateral and challenges surrounding statutory liquidity rates and government debt have a significant impact on access to finances for small enterprises. A combination of tax measures and reform of the banking structures in many of the participating countries would help in addressing this need. IMF provided examples on how other developing economies addressed this issue. Examples included Latin America and more information would be shared as requested.

- The IMF presentation also guided the participants in further strengthening their perspective on what additional barriers impacting the bank’s ability to value and access collateral, the difficulties posed by often inefficient court systems and bankruptcy procedures

4) Government partnerships with the private sector

In debating how much regulation and partnership the government should have in the business of private sector companies, the discussion focused on the following observations:
• Possible benefits of **public-private sector partnerships** in boosting the economy such as has been experienced in Malaysia

• Consideration was given to the impact red tape concerning health and safety conditions of workers in companies and the additional pressures for companies concerning the intervention of governments to enforce a raise in the minimum wage to help lift people out of poverty. It was agreed that such interventions are often necessary despite the often reluctance from companies to do so. A rise in the minimum wage has empowered many women employed particularly in the garment industry in Bangladesh.

5) **Climate Change and Energy Pricing**

The impact of climate change was widely discussed and participants agreed that this was a priority for each economy in the participating regions. Acknowledging that climate change is a big issue for the region, the discussion noted that:

• Fiscal instruments such as carbon taxes are an effective policy for reflecting environmental princes and the promotion of cleaner energy sources. This also provides a valuable source of revenue otherwise known as a ‘Green Fund’

• It was agreed that getting energy prices right has great benefits fiscally, environmentally and also in terms of health